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 ACTION EB-00

INFO	LOG-00	ADS-00	AID-00	INR-10	EUR-00	SS-00	CIAE-00
	DINT-05	DODE-00	H-01	NSCE-00	NSF-01	ARA-00	NSAE-00
	COME-00	L-03	CTME-00	TRSE-00	PM-10	OPIC-07	CEA-01
	OMB-01	STR-17	INRE-00	FRB-03	OES-09	ACDA-12	USIE-00
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	T-01	/087 W					

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R 121628Z MAY 88
 FM AMEMBASSY BOGOTA
 TO SECSTATE WASHDC 6429
 INFO AMEMBASSY MADRID
 AMEMBASSY QUITO

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E.O. 12356: N/A
 TAGS: ENRG, EPET, PINR, CO
 SUBJECT: AMBASSADOR'S CALL ON MINES AND ENERGY MINISTER
 PERRY

REF: (A) BOGOTA 4621, (B) BOGOTA 5824

1. SUMMARY: ON MAY 5, MINES AND ENERGY MINISTER PERRY TOLD THE AMBASSADOR THAT DEVELOPMENT OF COLOMBIA'S COAL AND PETROLEUM RESOURCES IS GOING WELL. THE ONLY REAL PROBLEM IS GUERRILLA ATTACKS ON OIL PIPELINES AND OTHER FACILITIES. PERRY BELIEVES BETTER INTELLIGENCE AND IMPROVED RELATIONS WITH LOCAL RESIDENTS ARE KEY TO DEALING WITH THE GUERRILLA THREAT. WHILE PERRY SUPPORTS THE OPEC GOAL OF OIL MARKET STABILIZATION, OIL PRODUCTION IN COLOMBIA IS A PRIVATE SECTOR ACTIVITY SO THE GOC CANNOT DICTATE PRODUCTION CUTS. PERRY IS A VERY PRAGMATIC MINISTER AND ONE OF THE STARS OF THE BARCO GOVERNMENT CABINET. END SUMMARY

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2. THE AMBASSADOR, ACCOMPANIED BY THE DCM AND ECON COUNSELOR, CALLED ON GUILLERMO PERRY, MINISTER OF MINES AND ENERGY, ON MAY 5.

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UNITED STATES DEPARTMENT OF STATE
 REVIEW AUTHORITY: OSCAR J. OLSON
 DATE/CASE ID: 30 OCT 2002 200201334

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3. PERRY OPENED THE MEETING BY SAYING THAT NEGOTIATIONS BETWEEN THE GOC AND THE DRUMMOND CORPORATION ARE NEARING COMPLETION FOR A MAJOR INVESTMENT BY DRUMMOND TO DEVELOP COAL DEPOSITS IN THE AREA AROUND LA LOMA IN CESAR DEPARTMENT. DRUMMOND'S INVESTMENT COULD BE AS MUCH AS 600 MILLION DOLLARS IF THERE IS AS MUCH COAL AS GEOLOGISTS BELIEVE. PERRY ADMITTED THAT LA LOMA IS AN AREA OF INSURGENT ACTIVITY, BUT SAID A MAJOR PROJECT LIKE THIS IS WHAT IS NEEDED TO PROVIDE ECONOMIC ALTERNATIVES TO THE GUERRILLAS. (MORE DETAILS ON THE DRUMMOND INVESTMENT WILL BE PROVIDED SEPTTEL.)

4. THE AMBASSADOR ASKED PERRY FOR HIS VIEWS ON THE RECENT SALE BY OCCIDENTAL PETROLEUM OF ONE-FOURTH OF ITS COLOMBIAN HOLDINGS TO REPSOL (SPANISH STATE OIL COMPANY) (REF A). PERRY SAID REPSOL HAS DONE BUSINESS IN COLOMBIA FOR SOME TIME AND HAS A GOOD REPUTATION. THE ONLY PROBLEM IS THAT THIS OFF-SHORE SALE REMINDS MANY PEOPLE OF THE CONTRAVERSIAL SALE OXY MADE TO SHELL IN 1985. ALTHOUGH PERRY BELIEVES OXY'S SALE TO REPSOL IS LEGAL, HE SAID THERE IS A PROVISION IN THE ASSOCIATION CONTRACT BETWEEN OXY AND ECOPETROL (COLOMBIA'S STATE OIL COMPANY) THAT CALLS FOR CONSULTATION BETWEEN PARTNERS BEFORE EITHER SELLS ANY ASSETS. THIS CONSULTATION IS ONLY TO DETERMINE IF THE COMPANY BUYING INTO THE PARTNERSHIP IS A GOOD ONE. REPSOL IS CERTAINLY AN ACCEPTABLE PARTNER, BUT OXY'S FAILURE TO FOLLOW THE PARTNERSHIP RULES AND CONSULT IS YET ANOTHER EXAMPLE OF LIMITED OFFICIAL USE

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WHY OXY HAS SO MANY ENEMIES IN COLOMBIA. PERRY SAID MUCH OF OXY'S BAD REPUTATION IS UNWARRANTED, BUT THE U.S. CORPORATION'S RECORD SHOWS ENOUGH BAD MANAGEMENT AND PUBLIC RELATIONS DECISIONS TO GIVE ITS CRITICS A LOT OF AMMUNITION.

5. RESPONDING TO THE AMBASSADOR'S QUESTION ABOUT COLOMBIA AND THE RECENT OPEC MEETING, PERRY POINTED OUT THAT OIL PRODUCTION IN COLOMBIA IS JOINTLY OWNED BY ECOPETROL AND PRIVATE SECTOR COMPANIES. THUS, THE GOC, EVEN IF IT WANTED TO, COULD NOT ARBITRARILY DECIDE TO CUT PRODUCTION AND EXPORTS. NEVERTHELESS, PERRY AGREED WITH THE OPEC GOAL OF MARKET STABILIZATION, WHICH HE NOTED IS ALSO AN OECD GOAL VIA RESERVE STOCKS. HE SAID THE MAIN PROBLEM NOW FACING THE OIL MARKET IS

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OVERPRODUCTION. WHILE COLOMBIA RECEIVED AN AVERAGE OF 18 DOLLARS PER BARREL FOR ITS EXPORTS IN 1987, THE AVERAGE THIS YEAR WILL PROBABLY BE BELOW 15 DOLLARS PER BARREL. IT WOULD TAKE A SIGNIFICANT CUT IN WORLD PRODUCTION TO GET THE PRICE BACK UP INTO THE 18 DOLLAR RANGE. AS USUAL, THE SAUDIS ARE KEY TO WHAT HAPPENS IN THE OIL MARKET, PERRY SAID.

6. PERRY EMPHASIZED THAT COLOMBIA'S PETROLEUM EXPORT POLICY IS NOT SET ON THE BASIS OF WORLD PRICES. COLOMBIA WILL EXPORT BASED ON ASSESSMENTS OF RATIONAL UTILIZATION OF PRODUCTIVE CAPACITY AND BALANCE OF PAYMENT NEEDS.

7. REGARDING ECUADOR, PERRY SAID THE ARRANGEMENT FOR USING COLOMBIA'S SOUTHERN TRANS ANDEAN PIPELINE TO EXPORT ECUADORIAN CRUDE AFTER THE 1987 EARTHQUAKE WORKED VERY WELL. AT THAT TIME, 35,000 TO 50,000 BPD OF ECUADORIAN CRUDE WAS PUMPED. EVEN WITH THE REPAIR OF THE ECUADORIAN PIPELINE, ECUADOR STILL SENDS 15,000 TO 20,000 BPD THROUGH THE COLOMBIAN LINE. PERRY SAID JOINT

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PERRY

COLOMBIAN-ECUADORIAN EXPLORATION ALONG THE BORDER IS
ALSO GOING WELL.

8. ON COLOMBIAN CRUDE PRODUCTION, PERRY SAID THE CANO
LIMON-COVENAS PIPELINE IS OPERATING AT FULL CAPACITY OF
225,000 TO 230,000 BPD. OXY HAD CLAIMED THAT THE LINE
COULD HANDLE UP TO 260,000 BPD, BUT ACTUAL PUMPING AT
THAT RATE BURNED OUT SEVEN PUMP ENGINES. THE ONLY WAY
TO INCREASE THE LINE'S CAPACITY IS TO ADD MORE PUMP
STATIONS, WHICH IS NOW UNDER CONSIDERATION. NEW
PIPELINES, HOWEVER, WHICH WILL BRING ADDITIONAL OIL OUT
OF THE CENTRAL LLANOS AND THE UPPER MAGDALENA COULD
DOUBLE COLOMBIAN EXPORTS NEXT YEAR. THIS WILL REQUIRE
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AN EXPANSION OF THE OIL TERMINAL AT COVENAS. PERRY FELT
THE EXISTING FLOATING STORAGE UNIT (A SUPER TANKER
MOORED 16 MILES OFF SHORE) IS INADEQUATE AND ADDITIONAL
STORAGE WILL HAVE TO BE CREATED.

9. ACCORDING TO PERRY, THE PROSPECTS FOR FINDING OIL ON
THE PACIFIC COAST LOOK REASONABLY GOOD. ECOPETROL WILL
SOON AUCTION OFF FOUR EXPLORATION BLOCKS (ON AND OFF
SHORE) ON THE PACIFIC COAST. THE AUCTION APPROACH HAS
NEVER BEEN TRIED BEFORE IN COLOMBIA. TO COMPENSATE OIL
COMPANIES FOR THE HIGHER EXPLORATION RISK ALONG THE WEST
COAST ECOPETROL WILL OFFER BIDDERS A MORE FAVORABLE
SHARING ARRANGEMENT THAN IS CURRENTLY AVAILABLE UNDER
ASSOCIATION CONTRACTS. IF THIS NEW ARRANGEMENT WORKS,
PERRY INDICATED OTHER AREAS, SUCH AS THE AMAZONAS IN
SOUTHERN COLOMBIA, COULD BE OFFERED ON THE SAME BASIS.
PERRY NOTED THAT AS A RESULT OF THEIR PRELIMINARY
SURVEY, AMOCO IS OPTIMISTIC ABOUT OIL IN THE AMAZONAS
AREA.

10. ALL IN ALL, PERRY SAID COLOMBIA'S PETROLEUM OUTLOOK
IS GOOD. THE ONLY REAL PROBLEM IS GUERILLA ATTACKS ON
PIPELINES AND PRODUCTION FACILITIES. PERRY LISTED THREE

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AREAS THAT NEED IMPROVEMENT TO DEAL WITH THE GUERRILLA PROBLEM, IN THE FOLLOWING ORDER OF PRIORITY: (1) BETTER INTELLIGENCE, (2) IMPROVED RELATIONS WITH THE LOCAL POPULACE IN THE PRODUCTION AND PIPELINE AREAS, AND (3) INCREASED MILITARY CAPABILITY. WHILE THE LAST IS IMPORTANT AND WHAT MOST PEOPLE FOCUS ON, PERRY THINKS THE FIRST TWO ARE THE MOST IMPORTANT AREAS FOR IMPROVEMENT. HE NOTED THAT THE ELN (NATIONAL LIBERATION ARMY) GUERRILLA GROUP IS TOLERATED, IF NOT SUPPORTED, BY THE LOCAL POPULACE. PERRY DID SAY THAT THE CAMPAIGN IN

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THE ARAUCA AREA HAS BEEN SUCCESSFUL IN EDUCATING PEOPLE THAT COLOMBIA, NOT THE FOREIGN OIL COMPANIES, IS THE MAJOR BENEFICIARY OF OIL PRODUCTION.

11. AT THE CONCLUSION OF THE MEETING, PERRY RAISED THE ISSUE OF CLEARANCE FOR THE RESEARCH VESSEL CAPE HATTERAS (REF B). PERRY DID NOT UNDERSTAND THAT THE U.S. HAS ALWAYS SUBMITTED REQUESTS FOR VESSEL CLEARANCES WELL IN ADVANCE OF THE COLOMBIAN 90-DAY REQUIREMENT. THE AMBASSADOR EXPLAINED THAT THERE WERE INTERNAL GOC COMMUNICATIONS PROBLEMS, BUT ALSO INGEOMINAS WAS UNHAPPY ABOUT NOT GETTING REPORTS ON PREVIOUS REASEARCH PROJECTS. PERRY SAID HE WOULD DO WHAT HE COULD TO RESOLVE THE COMMUNICATIONS PROBLEMS. HE NOTED THAT COLOMBIA HAD IT OWN RESEARCH VESSEL, AND WOULD LIKE TO PARTICIPATE IN U.S. RESEARCH PROJECTS. THE AMBASSADOR REPLIED THAT HIS STAFF WOULD COORDINATE WITH INGEOMINAS ON THAT POSSIBILITY.

12. COMMENT: WITH ALMOST TWO YEARS AS MINISTER OF MINES AND ENERGY, PERRY CONTINUES TO BE ONE OF THE OUTSTANDING MEMBERS OF THE BARCO CABINET. HE CAME TO THE JOB IN AUGUST 1986 WITH A REPUTATION AS A LEFT-OF-CENTER TECHNOCRAT AND THE AMERICAN OIL COMPANIES WERE CONCERNED ABOUT WHAT HIS ATTITUDE TOWARD MULTINATIONALS MIGHT BE. THOSE CONCERNS HAVE NOW BEEN COMPLETELY ALLAYED, AND HE HAS GOOD WORKING RELATIONS WITH ALL THE FOREIGN OIL COMPANIES OPERATING IN COLOMBIA. HE HAS BEEN LESS CRITICAL OF OXY THAN MANY OTHER COLOMBIAN OBSERVERS. HE HAS REPEATELY STATED, BOTH PUBLICLY AND PRIVATELY, THAT COLOMBIA NEEDS MORE FOREIGN INVESTMENT TO DEVELOP COLOMBIA'S MINERAL RESOURCES. WHILE HE HAS BEEN CAUTIOUS ABOUT EXPANDING

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OIL PRODUCTION AND EXPORTS, THIS HAS BEEN DUE TO
TECHNICAL CONCERNS ABOUT POSSIBLE OVER PRODUCTION OF THE
FIELDS RATHER THAN IDEOLOGY. IN CONTACTS WITH THE
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AMBASSADOR AND OTHER EMBASSY STAFF, PERRY HAS ALWAYS BEEN
RELAXED AND OPEN. HIS DECISIONS SEEM TO BE BASED
ENTIRELY ON PRAGMATIC, NOT IDEOLOGICAL, CONSIDERATIONS.
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